Chapter – 1

Select Review of Literature & Methodology
1.0 INTRODUCTION

Agriculture occupies a prominent place and plays a crucial role in the economies of developing countries. Agricultural development seems to be far more complex than that of industry. Agricultural credit markets in developing countries are characterized by dichotomy i.e., the co-existence of institutional as well as non-institutional sectors. The cost and availability of credit in these two sectors differs considerably. Small farmers have restricted access to organized sector, who are forced to borrow from non-institutional agencies at sky-high rates of interest\(^1\).

In India, the vital role of agriculture arises out of the position, the agrarian sector occupies in the overall economy of the country. Agriculture is the largest sector of economic activity and has a crucial role to play in the
country's economic development by providing food and raw materials and employment to a very large proportion of population, capital for its own development and surpluses for national economic development. Thus, the importance of agriculture despite rapid industrialisation has not in any way diminished. It has become necessary not only to achieve self-sufficiency in matters of food and agricultural raw materials, but to highly modernise agriculture so as to throw up surpluses to be made available for investment in the other sectors of economy as well.

Finance is the lifeblood of all economic activities and plays a dominant role in the economic development of a country which is true in India as the major activity is agriculture. Agriculture is a productive occupation and one of the essentials of agriculture production is capital. This may be provided by the cultivator himself or like other business, he may borrow it from some one else and repay it from the output of the field in which he has invested. In India agricultural credit is a two fold problem of inadequacy and unsuitability that perennially presented. Undoubtedly the Indian farmer is not able to make the maximum use of his time, labour and productive capacity of his land because of inadequate financial facilities. The lesson of universal agrarian history from Rome to Scotland is that the essence of agriculture is credit. Neither the condition of the country nor the nature of land tenures, nor the position of agriculture, effects one great fact that agriculturists must borrow. Agricultural credit
in a practical sense is a nucleus of the system of farm operation. It provides a flow to the system averting ruin which would have occurred due to the lack of monetary capacity of a farmer. According to an old French proverb "Credit supports the farmers as the hangman's rope supports the hanged". Thus credit injects life into lifeless agriculture, resulting in enhanced crop-productivity which benefits both the farmers and the country.

The percentage of farmers receiving institutional credit varies widely in different parts of the developing world. Imperfections in the agricultural credit market are ubiquitous and more pronounced. The main beneficiaries of institutional credit are big farmers. The supply of credit among different categories of farmers is heavily skewed. For increase in agricultural productivity and income, institutionalization of agricultural credit is necessary. The same applies especially to small farmers who lacks savings and ready access to institutional sources. In almost all developing countries the policy makers have realized the role of institutional credit in agricultural and rural development.

1.1 AN OVERVIEW OF THE LITERATURE

The literature on rural credit in the context of developing economies may be broadly grouped into two categories. The first set consists of writings mostly from the World Bank and its affiliates which are based on
the efficacy of market mechanisms in the allocation of credit to the different sectors, classes and regions of the economy. These writings draw their inspiration from the traditional neo-classical model. Government intervention, according to this line of thinking, tends to misallocate credit and contribute adversely to income distribution as it leads to inefficiency of resource allocation from the social point of view. The second school of thought, which is often described as conventional, is guided by the market failure argument and cannot serve the interests of the economically weaker organisms and hence the need to regulate credit market in their interests. A brief review of select literature is presented hereunder in support of each of these approaches. In addition to this some area specific studies on agricultural finance and problems of mounting overdues are considered.

1.2 AGRICULTURAL CREDIT FOR SMALL FARM DEVELOPMENT

David D. Bathrick\textsuperscript{7} in his work explains that agricultural credit should be viewed not in isolation but in relation to supporting services and the needs of improved technology. The overview summarises the evaluation of ideas on policy issues pertaining to eligibility criteria and security requirements, interest rates and the merits of interest subsidies, repayment performance and credit channels. A glaring omission in the overview is the inadequacy of attention to the inter-relationship between
agrarian structure and inadequacy of credit to the small farmers on one hand, and the preferred model of the institutional system of credit, on the other. The critical operational problems identified by the author pertain to management information systems, project evaluation systems, quality of supporting services, loan approval considerations, centralisation vis-à-vis decentralisation of organisation, personnel matters, and management and personnel administration systems.

1.3 RURAL FINANCIAL MARKETS IN DEVELOPING COUNTRIES

J.D. Von pischke and his group in their book highlights the facets of Rural Financial Markets that have often been neglected in developing countries. Many authors in this book, however, assert that farmers in developing countries are rational in their use of financial markets. This conclusion has important implications for the way Rural Financial Market interventions are designed. It strongly suggests that supply-led strategies for rural development ought to be de-emphasized. Rather than merely increasing the supply of loanable funds, attention should be directed towards improving the range and quality of rural financial services for low income farmers. It reflects new thinking on the design, administration, evaluation and policy frame work of rural finance and credit programmes in developing countries.
1.4 MARKET IMPERFECTION AND FRAGMENTATION

Keith Griffing analyses the structural characteristics of different factor-markets including credit market in his work. His major hypothesis is that economic and political power is concentrated in a small group and, as a result, factor markets are highly imperfect. He advances the view that factor and commodity markets are interlinked. In the underdeveloped rural areas, the prices of the agricultural inputs particularly the prices of the material inputs are 'political prices', not prices determined exclusively by economic forces. Government intervention in market processes through taxes, subsidies, quotas and rationing is widespread and to comprehend the set of relative prices that results one needs a theory of politics and the state as much as theory of economics. Imperfections in the rural capital market however are ubiquitous and more pronounced. Large farmers have ready access to formal credit at preferential interest rates since their wealth, income and status make the risk of lending them minimal. Furthermore, the large farmers are able to use their political influence to ensure that government credit programmes cater to their needs. The small peasant, in contrast, has little working capital and restricted access to credit. Different policies can have quite different consequences for the two groups. Finally, the book examines the mechanisms which are eroding the agrarian structures of much of the underdeveloped world and analyses the implications of these changes for the well-being of those who live and work in rural areas.
1.5 NATURE OF CREDIT MARKETS IN DEVELOPING COUNTRIES

Arvind Virmani analyses various forms of government intervention in the loan market in terms of their effect on efficiency. One of the implications of the paper is that the credit market differs fundamentally from the market for ordinary goods and services. Consequently, conventional analysis of loan markets, based on the theory applicable to product markets, can be misleading even where similar prescriptions are reached. Another important highlight of the paper is the vital role of collateral in the loan market. These two issues are addressed in the introductory discussion on the special nature of credit markets, which forms an important pre-requisite for understanding the subsequent sections of the paper. The paper focuses its attention exclusively on one of the underlying reasons for government intervention namely market failure in the credit market. It examines the causes and consequences of market imperfections or failures in the rural credit structure and the effects of different types of intervention and their implications for different policies for correcting market imperfections on the loan side of the market.

1.6 UNDERMINING RURAL DEVELOPMENT WITH CHEAP CREDIT

Dale W. Adams in his study "Undermining Rural Development with Cheap Credit" outlines that in the past several decades large amounts of money have gone into agricultural credit programmes in low income
countries. The results of these efforts have often been disappointing; persistence of serious loan recovery problems; the rich getting most of the cheap loans; low interest rates discouraging local savings and deposits; and common political intrusions. Hence many financial institutions in low income countries are floundering. The contributors to this book cite ubiquitous low-interest rate policies and improper use of financial markets as principal reasons for these problems, recommending higher and more flexible interest rates.

1.7 WORLD DEVELOPMENT REPORT 1986

The World Development Report\textsuperscript{12} dealing with trade and pricing policies in world agriculture in the context of developing countries, reviews the special programmes for providing credit to farmers generally at low interest rates. Subsidised credit programmes usually have harmful side effects on financial institutions and the wider rural economy. Cheap loans are, therefore, unsuccessful in redistributing income toward the rural poor. The value of the subsidy is proportional to the size of the loan and, therefore, small farmers tend to receive small loans and thereby small amount of subsidies. Studies in this area reveal that the typical pattern is for large amounts of low interest agricultural credit to be concentrated in the hands of relatively a few borrowers who are better off and politically influential. Many rural credit programmes use interest rate subsidies to
encourage farmers to use particular inputs or to grow specific crops. But subsidised credit is widely diverted to the other uses. Close supervision can limit the diversion, but it is costly and difficult because farmers can reallocate other funds.

1.8 WORLD DEVELOPMENT REPORT 1989

It is devoted to an examination on the role of finance in economic development. It cites the historical experience of the evaluation and regulation of financial institutions due to various considerations including the fostering of a sound investment climate. The report states that failures and fraud in financial systems have led governments to intervene extensively. But empirical evidence suggests that extensive intervention by government more often leads to inefficiency in the allocation of financial resources.

1.9 RBI STUDIES

Reserve Bank of India has conducted many studies in the field of rural credit. The more prominent among them are as follows.

(a) All India Rural Credit Survey (1951-52)

The all India rural credit survey made the following main recommendations.
1. The State should participate in co-operatives at all levels and should extend financial and managerial assistance to raise the resources and streamline the functioning.

2. The linking of credit with marketing in order to minimise the evil of overdues in co-operative sector thereby increasing the recycling of credit.

3. Establishment of multipurpose co-operative societies in the place of single purpose societies.

4. Construction of a network of warehouses for the storage of agricultural produce.

5. Establishment of countrywide banking institutions to promote rural banking and co-operative credit institutions.

6. The creation of two special funds by the RBI with a view to enabling Reserve Bank to extend long-term credit to the State Government to participate in the share capital of central co-operative banks and land mortgage banks.

7. Imparting training to the personnel of co-operatives to be able to crop-loan quality service to rural borrowers.

8. Adequate and timely credit has to be supplied to small farmers.

9. The provision of short-term credit should be based on crop-loan system.
(b) All India Debt and Investment Survey (1961-62)

This survey reported that 22 per cent of the credit was utilised on capital expenditure, 13.5 per cent on current expenditure of farm business, 46.6 per cent household expenditure and the rest on purposes like non-farm business, repayment of old debt and expenditure of litigation etc.

(c) All India Rural Credit Review Committee- 1969

This committee was set up by RBI 1969 to assess the credit needs and the volume of institutional credit available in aggregate for agriculture. The committee noticed the following causes for overdues.

1. Loans are given to achieve the targets without caring for the repaying capacity of the borrowers.

2. Loans are parcelled out in small amounts which are inadequate for the purpose for which they are granted.

3. Staff for the recovery of taccavi loans inadequate.

4. Failure to take action by the authorities against wilfull defaulters.
Recommendations

The All India Rural Credit Review Committee 1969 made the following recommendations.

1. The strengthening of co-operative credit institutions to enhance the credit flow to meet the credit needs of the cultivators necessitated by the adoption of new technology.

2. Reorganisation of weak and unviable societies should be completed within first two years of the Fourth Plan, so only viable primary agricultural credit societies remain in existence.

3. The loan procedure should be so designed that the borrower gets the loan at the time when he needs it.

4. In tackling overdues, the committee laid emphasis on educating the borrowers, the extension staff, the administrators and the political chiefs in the discipline which must underlie institutional credit if its flow is not to be interrupted.

5. Establishment of Small Farmers Development Agency (SFDA) to provide various services.

6. Taccavi should be considered as a purely temporarily and limited arrangement.
7. The commercial banks should evolve a suitable set of rules and procedures to determine the circumstance in which defaults might be condoned on account of crap-failure, etc.,

8. Co-operative and commercial banks should pay more attention to mobilisation of rural savings.

9. Special Fund Known as Rural Electrification Fund may be constituted to promote rural electrification, particularly for extensive use of pump-sets for crop irrigation.

10. The sanction of a joint loan to a group of small farmers for purchase of bullocks for their joint use or for sinking a common well and making all members responsible jointly and severally for repayment of loan.

11. Employment of trained staff by commercial banks and co-operative credit institutions.

(d) Report of the Study Team on Overdues of Co-operative Credit Institutions 1974.

Datey Committee went into the problem of overdues. The committee was of the view that overdues were not only due to incapacity of the cultivators to pay but in many cases it was international as well. In addition the fault also laid with the society to some extent. The societies have no full time paid staff and office bearers in many cases did not take timely action for recovery.
The main recommendations of the committee were:

- Registrar of the society as well as Central Bank should be empowered to initiate action on its own in the case of defaulters.

- Arbitration procedure for recovery of loans should be made easy and speedier.

- Co-operative laws should be so amended that societies were empowered to refuse loans to those who defaulted in repayment in the past.

- Defaulting co-operative societies should not be financially assisted by the state government.

- Societies should be encouraged to have full-time paid staff, which could properly attend to defaulters. Book adjustments to reduce overdues should be discouraged.

(e) NCAER, Credit Requirements for Agriculture: 1974

The pattern of credit requirements was analysed in detail in the report "Credit Requirements for Agriculture". A study in depth of what actually happens in the villages in the matter of agricultural credit should therefore be of considerable practical interest. The factual basis of this
study was a comprehensive field survey of 3,309 cultivating households of which 1,306 were borrowing households. The sampling was done with as much scientific rigour as circumstances permitted, with suitable over sampling in more developed areas.

The analysis clearly brought out that a major gap existed in the sphere of investment credit and considerable progress had to be made in respect of long-term financing of agriculture through institutional agencies i.e., primarily the co-operative land development banks. Another finding of the study was that with greater institutionalization, the rate of interest on loans from all sources showed a decline.

(f) RBI, Report of the Agricultural Credit Review Committee: 1989

The Agricultural Credit Review Committee (ACRC) was appointed by the Reserve Bank of India at the request of the Government of India, under the Chairmanship of Prof. A.M. Khusro. It is the 4th in the series of comprehensive studies undertaken by the Reserve Bank of India in the field of farm credit. The Report divided into ten parts with 24 chapters. The Agricultural Credit Review and the approach of the committee to task are spelt out in the introduction. Chapter 1 and 2 in part I give an overview of the report and a general view of emerging agricultural scenario in India during the last one decade. The present position of the various
streams of credit delivery system and the lead for having a National Cooperative Bank are explained in part-II. Part III of the report describes the measures for strengthening the credit delivery system, for correcting regional imbalance in the credit system, man power development and management information systems. The overdues syndrome is described in the part-IV. The fifth part of the Report is devoted to analyse the risk in agricultural lending. The critical issue of interest rates, lending cost and margins for the various types of credit institutions and autonomy of credit institutions have been dealt with in part-VI. The seventh part is devoted to an elaboration of the role of apex level institutions. Credit linked poverty alleviation programmes are discussed in the eighth part. The estimates of agricultural credit requirements and supply of resources by the end 2000 A.D., along with related issues are discussed in part-IX. Part-X gives a summary of the Report.

(g) Committee on Banking Sector Reforms: 1998

The Government of India Constituted a Committee on Banking Sector Reforms under the Chairmanship of M. Narasimham which submitted its report in April 1998. Following are the major recommendations of the committee relating to Rural and Small Industrial credit.
i. The Banking Systems should evolve norms to identify eligible clients for Government sponsored programmes and be fully responsible for all aspects of credit decisions. The Committee urged against loan waivers.

ii. RRBs and Co-operatives should reach a minimum of 8 per cent capital to Risk Assets Ratio (CRAR) over five years.

iii. Capital structure of RRBs be reviewed to enlarge public subscription and greater ownership and responsibility for the sponsor banks. Merger of RRBs sponsored by the same bank in the same State may be pursued to provide economies of scale and optimal use of manpower. The low cost nature of RRBs may not be further diluted.

iv. The committee suggested delaying of co-operative structure to reduce cost of intermediation and to transfer the benefits of cheaper refinance of NABARD to the ultimate borrower.

v. Supervisory function over RFIs may continue with NABARD but be transferred in the long run to the Board of Financial Regulation and Supervision (BFRS).

vi. Duality of control on co-operatives by State Governments and RBI/NABARD be eliminated.
vii. Banking policy should facilitate evolution and growth of micro-credit institutions.

viii. The Committee stress on the dedicated and effective debt recovery mechanism.

ix. The power of sale of mortgages be vested through separate statute with LDBs, State Financial Corporations and be extended to other agencies.

(h) Report of the High Level Committee on Agricultural Credit through Commercial Banks

A high level committee on agricultural credit through commercial banks21 was constituted by Reserve Bank of India under the Chairmanship of Shri R.V. Gupta, former Dy. Governor of RBI in December 1997 with a mandate to identify constraints faced by the Commercial Banks in increasing flow of credit to agriculture, introducing new products and services and simplifying procedures and methods of working with a view to enabling rural borrowers to get adequate and timely credit from the commercial banking system. The Report of the Committee was submitted to Reserve Bank of India on 21st April 1998. The Major recommendations relating to simplification of procedures and recovery of loans were:
- Simple application form for documentation. Banks to make modifications in two months.

- Delegation of powers to Branch Managers to dispose of 90 per cent of loan applications at the branch level.

- Abolition of stamp duty on mortgage of agricultural land for obtaining loans from banks.

- State Governments to set apart dedicated teams for recovery of bank loans.

- Improving the recovery climate through rurally-oriented field publicity campaigns.

- Tangible incentives to prompt repayers such as interest benefit or rebate besides offering a finer interest rate to those who opt for a savings module linked to the loan product.

1.10 RESEARCH STUDIES

(a) N. Ajjan's main objectives of the study were (i) to analyse the performance of the three-tier structure of co-operative credit institutions in terms of their deposits, borrowings, working capital, loans issued, loans outstanding and the profit/loss during the last decade, i.e., 1982-83 to 1991-92, and (ii) to suggest appropriate strategies to improve their viability. The
analysis reveals that the deposits, borrowings and working capital have been increased more than 200 per cent in all the short term and medium-term co-operative credit institutions, viz., State Apex Co-operative Banks, Central Co-operative Banks and Primary Agricultural Co-operative Banks (PACBS). The percentage of overdues has continuously declined from 46 to about 35 during the reference period. In the case of PACBs, the overdues increased to 259 per cent during reference period reflecting poor recovery performance making most of the PACBs non-viable. This non-viability aspect was well conceived by the Agricultural Credit Review Committee which suggested a Business Development plan. This plan has been implemented in Tamil Nadu since 1991-92 and the results are encouraging. It is suggested that this plan should be continued till all the non-viable PACBs become viable.

In the long-term credit institutions, viz., State Land Development Bank, the share of loan issued to loan outstanding has increased to about 19 per cent during 1991-92 as against 8.97 per cent during 1982-83. The overdues of primary land development banks also increased to 18.75 per cent from 11 per cent during the corresponding periods. Profitability of these long-term credit institutions has fluctuated during the reference period, a majority of them working at a loss. It is suggested that recovery performance should be improved by diversified suitable plans. It is also
suggested that an appropriate plan encompassing diversified activities similar to Business Development plan should be drawn to improve the viability of primary land development banks.

(b) Balistar and others\textsuperscript{23} studied on overdues of loans and their methodology confined to size purposively selected from three development blocks of Agra district covered by land development bank of Agra Branch. 175 defaulting farmers from sample villages were selected for this study. These defaulter farmers were categorised as marginal, small, medium and large on the basis of owned holdings, whose number in respective categories was 56, 54, 43 and 22. The data were collected by personal interviews with the help of schedules and questionnaires for the year 1987-88.

Findings

The main findings that emerge from this study are:

1. The large and medium farmers together account for about 37 per cent of the total defaulters and for over 57 per cent of the total overdues while the marginal and small farmers together accounts for about 63 per cent of the total defaulters and about 42 per cent of the total overdues. Thus, the farmers of better category are responsible for a large proportion of overdues. This is rather a matter of serious concern to all those interested in the progress of these banks.
2. The amount of overdues and its percentage to demand have been continuously increasing during the period from 1978-1988 which is a matter of serious concern to the land development banks.

3. Out of 175 defaulters 67 or about 38 per cent are wilful defaulters. It is important here that wilful default is mainly confined to medium and large farmers to the extent over 90 per cent. Thus wilful default should be checked forthwith.

4. Out of 175 defaulters 108 or about 62 per cent are those who could not repay their loans due to lack of repayment capacity. For these defaulters, liberal measures such as extending the repayment period over a reasonable time and making adequate loans available in time. Besides, measures for improvement in crop yields, remunerative prices for the crop products, reasonable input prices and crop insurance are also necessary to enhance the repayment capacity of the farmers particularly marginal and small farmers.

Proper supervision over the end use of credit and personal reminder to the borrowers on the need to repay the loan can be effective devices for checking the mounting overdues.

(c) Mariappan studied on ‘Bank Failures and Contagion Effects’ in his work. A wakeup call for co-operative Banks in India. In this, he rightly concludes that his study as the continuing failure of co-operative banks has set a very alarming situation for the co-operative credit institutions in
India. Appropriate measures by the government and RBI by way of changes in the constitution and conduct of co-operative banks are urgent and imminent. This calls for a structural change and review of state co-operative Acts to design a fool proof system to check and block all loopholes that hamper the smooth and sensible functioning of co-operative credit institutions.

(d) Dubhashi presented a critique on Capoor report on co-operative credit. In this, he rightly states the weakest point of the co-operative credit institutions is the role of the ordinary members. Though the number of borrowing members in the short term co-operative credit structure is four crore, it constitutes only 41 per cent of total membership. The borrowing membership of the long term system at 71 per cent is somewhat higher but even there the number of non-borrowing members is considerable. Most of the non-borrowing members are small and marginal farmers and landless labourers. This gives rise to the feeling that the co-operative credit institutions mainly serve the more well-to-do farmers. This deficiency should be corrected by activisation of the dormant membership. It is only when the members are enlightened and wide awake that they can ensure the proper functioning of the co-operative credit institutions. The major problem of low quality of lending and mounting overdues can be overcome by enlisting member participation. Active member participation can also expand the volume of business, diversify lending and reduce the cost of
transactions. This requires a continuous programme of member education. The Capoor committee has not given any attention to this vital aspect of cooperative credit institutions though it has recommended a leadership development programme for the office bearers and the officers.

(e) S.K. Goyal and Others made an attempt to investigate various socio-economic characteristics and repayment capacity of the borrowers. The specific objectives of the study are:

1. To study the socio-economic characteristics of defaulters and non-defaulter borrowers; and

2. To study the repayment capacity of defaulter and non-defaulter borrowers.

Results and Discussion

General features of sample borrowers

The majority of the borrowers belonged to small size group followed by medium and large size. There was no significant difference in the average size of family between defaulters and non-defaulters. However, the percentage of earning adults to total adults was relatively higher in all the size groups of defaulters than that of non-defaulters. Further, the average size of operational holding in case of non-defaulters was slightly longer than the defaulting borrowers. However, statistically there was no
significant difference between the small and medium size groups of both the categories.

Extent of Borrowing and Overdues

The amount of loan borrower per farmer was highest by the medium group of defaulters but the loan borrowed per hectare was highest in the case of small farmers. Similar case was also witnessed regarding the amount of overdues per defaulter and per hectare. However, it was estimated that the percentage of overdues to the amount of loan advanced was highest in the case of the medium farmers than the other group of defaulters.

Repayment Capacity

The total cash returns during the year were higher in the case of all the three groups of non-defaulters than that of the defaulters. However, the total cash expenses were also higher for this group. Further, there was no significant difference in the amount of loan due between both the categories except in the case of medium formers. It was, however, found that the repayment capacity was not enough to repay the loan due in the case of all the three groups of defaulters. It may be attributed to higher percentage of consumption expenditure to total expenditure and poor managerial ability.
Conclusion

The non-defaulters were well off and better placed with respect to average yield of major crops, value of form assets, total cash returns of the household and repayment capacity as compared to defaulter borrowers. The defaulter borrowers utilised relatively larger proportion of their total earnings on consumption purposes and thereby leaving less for investment in production process. This resulted into low repaying capacity of the loan on the part of defaulter borrowers.

(f) Majumdar and Baruah in their case study, an attempt has been made to analyse the major socio-economic factors affecting the borrowing and repayment performance of the borrowers. It would be of immense benefit if the delinquency in repayment of farmers i.e., the ratio increased with the increase in farm size. Greater amount of borrowings and low repayment performance were the reasons for the higher amount of overdues in the larger size group of farmers. Thus it can be inferred that poor recovery vis-à-vis overdues of agricultural loan is a serious problem in the rural area.

(g) Sucha Singh Gill, made an attempt to examine Institutional Reforms for Agricultural Growth
Results

In this study, he highlighted the need for strengthening the farm extension services to narrow the gap between 'progressive' and average farmers. Allocative inefficiency was the highest in other capital expenses because of not adopting the principle of the economic threshold level in applying pesticides and this increased the allocative inefficiency of other capital expenses considerably. Allocative inefficiency was the lowest for fertilizer and this might be due to the fertilizer response of tree crops grown in the region. Economic efficiency implied that there was scope to rise output by 58-62 per cent if the production gaps between 'progressive' terms and 'average' farms were narrowed, and though optimal allocation of all resources.

(h) Srinivasa Vallabahan, studied on Default Pattern in Agricultural Loans.

Results

A pilot study was conducted earlier to find out the default factors in agricultural borrowings. With the help of statistical tools lesser significant factors were eliminated and five factors have been analysed with care and caution for understanding the reason for overdue and default. The collected data are compiled, classified and then tabulated for realistic
conclusions. It is to be noted that the average rate of overdue in PACBs in India is 41.05 per cent, overdue in PACBs in Tamilnadu is 21.62 per cent and overdue in TDCC Bank is 26.46 per cent in the past 10 years. These aspects have induced the faculty for a pragmatic analysis in this area.

(i) Arul Anandam and Namasivayam in their case study, concentrated on the recovery performance of PACs and measure the extent of overdues and their causation in the district of Ramnad, Tamil Nadu. The authors find that there is no relationship between caste, land holding, amount borrowed and repayment of overdues. On the other hand, there is a strong relationship between education, age, irrigation and occupation of the borrowers and repayment of dues. Default in repayment is more among illiterate borrowers, borrowers who mainly depend on cultivation, borrowers belonging to backward caste and borrowers belonging to middle and upper age group compared with their counterparts.

(j) Balishter Study was confined only to large size co-operative society, Midhakur of Bichpuri block in Agra district of Uttar Pradesh. Its specific objectives were to (i) find out the extent of agricultural loans advances by the primary agricultural credit society to various categories of farmers (ii) to examine the extent of short term and medium term loan advances by the co-operative society. (iii) to know the recovery of loan advances by the co-operative society and (iv) to examine the impact of short-term co-operative
finance on crop output and farm income of the sample farmers. The data used for this study include both the primary as well as the secondary data. The secondary data were taken from the records of the society under study and the primary data were collected from all the 62 borrower farmers of the co-operative society and 23 non-borrower farmers by survey methods for the agricultural year 1989-90. Although there has been about two and a half times increase in the loan advances by the society over a period of ten years, considering the demand for credit for changing agriculture, the rate of increase cannot be considered satisfactory. The co-operative society has mainly financed for the short-term credit needs of farmers. Throughout the ten-year period reference, the major part of loans have been provided in kind. The share of small farmers in short-term as well as medium-term loan advance is higher than the large forms. This clearly shows that the society has been giving due emphasis to finance small farmers which is a right step both from the standpoint of economic development and social justice. There has been over a ten-fold increase in the number of borrower farmers over a period of ten years. This shows that the society under study has made sincere efforts to bring the farming community under the activities of co-operative periphery in order to achieve the desired objectives. Though the recovery position of loan advances by the society is satisfactory, the figures of overdues given by the society do not reflect the real position because transfer entries by way of fresh advances is a known practice in co-operatives.
The availability of loan from the co-operative society helped the borrower farmers to grow more commercial crops as compared to the non-borrower farms. The level of input use was higher on the borrower farmers as compared to the non-borrower farmers, resulting in higher yields of crops per hectare on the borrower farms as compared to the non-borrower farms. The higher level of crop yields had generated substantial additional net income to the borrower farmers (Rs 3970 per hectare) as compared to the non-borrower farmers (Rs.2864 per hectare) the former being over 27 per cent higher than the latter. It may be concluded that the availability of loan from the co-operative society has resulted in a marked improvement in crop yields and farm income of the borrower farmers.

1.11 NEED FOR THE PRESENT STUDY

The organisation of co-operative credit societies has been one of the important policy measures adopted since the beginning of this century. Even after the entry of commercial banks in the field of agricultural finance, the government policy is to encourage the co-operatives as the primary organisations financing agricultural development. They are known for their ineffective operation. There is a stagnation in co-operative credit flow. The main reason for this is the mounting over dues which are clogging the process of credit recycling. Apart from natural calamities which might contribute to an insignificant share of default, a major
segment is primarily due to wilful default especially on the part of the better off sections of rural economy with a view to benefiting from expected write off from interest or principal either in part or in full. Unwilful default is easier to control through proper relaxation in recovery during times of distress. It is, however, the wilful default that is difficult to control without building up public opinion against its pernicious effects. A monolithic approach for all the regions in the country may not be suitable. Areas specific studies on the causes, effects and remedies of overdues will throw more light on these issues and thereby help policy formulation.

1.12 OBJECTIVES OF THE STUDY

The specific objectives of the present study are:

i. To examine the nature and extent of co-operatives loan overdues at institute and borrower levels in Nellore district.

ii. To study the relationship between the extent of default and the socio-economic characteristics of defaulters.

iii. To analyse the income and asset structure of defaulting and non-defaulting borrowers.

iv. To examine the nexus between size of holdings and default and ability to repay and default.
1.13 HYPOTHESIS

The following hypotheses are posited for testing.

i. There is no significant difference in nature and extent of overdues among different sample societies located in different revenue regions of Nellore district.

ii. Co-operative overdues are not related to socio-economic factors like size of holding, family size, extent of irrigation, literacy, occupation and community.

iii. There is no significant difference exists in the income and asset levels of defaulted and non-defaulted members of sample borrowers.

iv. There is no significant difference in the level of default between different size group of farmers and their ability to repay.

1.14 SAMPLING DESIGN

A major portion of short and medium term agricultural credit in Nellore district is channelised by Primary Agricultural Credit Societies (PACS). Therefore, a detailed investigation of the working of some of the primary societies has been taken up. The period of the study relates to the period commencing from 1993-94 and extends up to the co-operative year ended in March 2003.
The study covers wide range of population spread over the district a
two stage sampling plan has been considered to be more suitable and
flexible. Selection of PACS formed the first stage and selection of
defaulters and non-defaulters formed the second stage.

The first stage units (PACS) are selected randomly from 199
Primary Agricultural Credit Societies in the district. The district is divided
into three revenue regions. There are 65, 68 and 66 PACS in the Gudur,
Nellore and Kavali regions respectively. From each region 5 PACS are
selected for field investigation on consideration of proximity and better
familiarity.

As the main focus of the present study is to probe into the causes of
overdues at the individual borrowers level, the list of all defaulters and
non-defaulters from 15 sample PACS is obtained and post-stratified into
four groups based on the extent of land holding. The groups consist of the
defaulters and non-defaulters in the following way.

Group I – Marginal Farmers – Below 2.5 acres

Group II – Small Farmers – Between 2.5 to 5 acres

Group III – Medium Farmers – Between 5 to 10 acres

Group IV – Large Farmers – Above 10 acres
In the second stage, stratified random sampling technique is applied to select the defaulters and non-defaulters. Two defaulted and one non-defaulted members from the marginal as well as small farmers group and four defaulted and two non-defaulted members from the medium as well as large farmers group have been selected from each society. Thus 180 defaulted and 90 non-defaulted members have been selected from the sample societies.

1.15 DATA BASE

Two types of data were collected for the present study i.e. time series data and cross section data.

In order to provide a background for the present study, the performance of the District Co-operative Central Bank over a period is set out. Time series data with respective share capital, owned funds, deposits, loans advanced, outstanding, recoveries and overdues are collected for a period of 10 years from 1993-94 to 2002-03 from the records at the said bank. Data relating to the performance of the societies have been collected from the records of the sample societies for the period 1993-94 to 2002-03. Similarly time series data are also drawn from the publication of different institutions like Reserve Bank of India, NABARD, etc.,
Cross section data relating to the defaulters and non-defaulters regarding their assets, liabilities, current income and expenditure, investments, borrowings and repayment and hindrances in repayment are collected for the co-operative year ended in March 2003.

1.16 LIMITATIONS OF THE STUDY

The study is confined to select the role of Primary Agricultural Credit Societies (PACS) in Nellore district. Accurate secondary data on farm credit operations of the societies are not available due to irregularities in the maintenance of accounts by the society on one hand and the inherent inability on the part of the individual researcher to persuade the operative management to deviate from conventional behaviour on other hand. As the agriculturists do not maintain accounts, it is very difficult to get correct information due to considerations of false prestige and social status associated with their financial activities. Cross verification by indirect oral investigation was required to ascertain correct information and this was not possible in certain cases. These limitations are due to the limited availability of time and resources on the investigator. The results of the investigation pertain to the selected units of Nellore district only and cannot be generalised.
1.17 TOOLS OF ANALYSES

The data drawn from various sources are subjected to statistical treatment, Multiple regression, Correlation, Skewness, Gini-co-efficient, Analysis of variance (ANOVA), Chi-square test and Co-efficient of variation are employed. For temporal data Linear and Compound Growth Rate are computed and their significance is tested. Graphs and visual aids are made use of at appropriate places.

1.18 CHAPTER SCHEME

The report of the study is presented in six chapters. The first chapter deals with a brief review of literature and methodology of the present study. The second chapter intended to an analysis of agricultural credit system in India. A brief profile of research area and impact of institutional credit on agricultural sector in Nellore District is presented in the third chapter. The fourth chapter provides an analysis of causes and extent of co-operative overdues. The nature and dimensions of wilful and non-wilful default and the impact of co-operative credit policy on default are examined in the fifth chapter. The last chapter presents the summary of main findings and conclusions of the study.
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